

## Message Text

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E.O. 11652: GDS

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SUBJECT: GREECE'S 1975 BALANCE OF PAYMENTS: A MIDYEAR ASSESSMENT

REF: A. ATHENS 3459; B. ATHENS 1849; C. ATHENS 1809;

D. ATHENS 1808 (ALL NOTAL)

SUMMARY - SINCE PRIME MINISTER CARAMANLIS' FIRST POLICY STATEMENT TO THE NEWLY-ELECTED PARLIAMENT LAST DECEMBER, AND CONTINUING TO THE PRESENT TIME, TOP GOVERNMENT OFFICIALS HAVE STRESSED THEIR CONCERN OVER GREECE'S BALANCE OF PAYMENTS SITUATION. THE PERENNIAL TRADE IMBALANCE, WHILE NOT UNTYPICAL OF COUNTRIES AT GREECE'S STATE OF DEVELOPMENT, HAS BEEN COMPLICATED BY THE TREMENDOUS INCREASE IN PETROLEUM PRICES AND BY A MILITARY MODERNIZATION PROGRAM WHICH IS PERCEIVED AS ESSENTIAL TO NATIONAL SECURITY. EMBASSY ESTIMATES A CURRENT ACCOUNT DEFICIT OF APPROXIMATELY \$1.4 BILLION, ASSUMING NO DETERIORATION IN GREEK-TURKISH RELATIONS

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-A POSSIBILITY WHICH WOULD HAVE A SERIOUSLY ADVERSE EFFECT ON

EXPORTS AND INVISIBLE INFLOWS. ASSUMING A REASONABLE LEVEL OF NET PRIVATE CAPITAL INFLOW AND TAKING ACCOUNT OF OFFICIAL REPAYMENTS, THERE REMAINS A GAP OF \$700 - \$750 MILLION TO BE FINANCED BY OFFICIAL CAPITAL INFLOWS. (SINCE GOLD AND FOREIGN EXCHANGE RESERVES ARE EQUIVALENT TO ONLY TWO MONTHS' IMPORTS, FURTHER RESERVE DRAWDOWN IS NOT FEASIBLE.) THERE ARE A NUMBER OF POSSIBLE SOURCES FOR THIS FINANCING, INCLUDING THE IMF, FOREIGN COMMERCIAL BANKS, BILATERAL ASSISTANCE, AND PROJECT LOANS FROM THE EUROPEAN INVESTMENT BANK AND THE WORLD BANK. ALTHOUGH GREEK GOVERNMENT OFFICIALS BELIEVE THAT THEY WILL BE ABLE SUCCESSFULLY TO COVER THE GAP THROUGH THE FIRST QUARTER OF CY 1976 (AND WE AGREE), THEY ARE NONETHELESS SERIOUSLY CONCERNED ABOUT MEDIUM-RANGE PROSPECTS, AND PARTICULARLY ABOUT THE EFFECT WHICH CONTINUED HEAVY EXTERNAL BORROWING WILL HAVE ON GREECE'S FUTURE DEBT SERVICE BURDEN. BECAUSE OF THE IMPLICATIONS OF A POTENTIAL BALANCE OF PAYMENTS CRISIS ON POLITICAL/SOCIAL STABILITY, THE GOG IS LOOKING TOWARD BILATERAL AND MULTILATERAL ASSISTANCE AT CONCESSIONAL TERMS, IN ORDER TO TIDE THEM OVER THIS PERIOD DURING WHICH GOVERNMENT EFFORTS WILL BE DIRECTED AT STRUCTURAL REFORMS (GREATER EXPORT ORIENTATION AND DEVELOPMENT OF DOMESTIC ENERGY). END SUMMARY.

1. IMPORTS - THE BANK OF GREECE'S OFFICIAL PROJECTIONS (SEE REFS B, C, AND D) SHOWED 1975 IMPORTS AT \$5.1 BILLION, A 10 PERCENT INCREASE OVER THE 1974 LEVEL.

COORDINATION MINISTER PAPALIGOURAS, HOWEVER, INDICATED CONFIDENTIALLY TO THE EMBASSY LAST SPRING WHEN HE MADE THESE DATA AVAILABLE THAT THEY DID NOT REFLECT ADDITIONAL MILITARY PURCHASES (REF. C). (MILITARY PROCUREMENT AND BALANCING CAPITAL INFLOWS ARE REGARDED BY GOG AS EXTREMELY SENSITIVE, AND THEY HAVE TRADITIONALLY BEEN OBSCURED IN OFFICIAL GREEK BALANCE OF PAYMENTS STATISTICS; ONLY A NET SUM REPRESENTING PAYMENTS MADE DURING THE YEAR FINDS ITS WAY INTO OFFICIAL STATISTICAL TABLES, AND EVEN THIS FIGURE IS IMPOSSIBLE TO IDENTIFY WITH PRECISION.) OBVIOUSLY, REGARDLESS OF THE METHOD OF STATISTICAL PRESENTATION, THE MILITARY MODERNIZATION PROGRAM WILL IMPACT HEAVILY ON THE 1975 AND SUBSEQUENT BALANCE OF PAYMENTS.

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2. WHILE THE BANK OF GREECE CURRENTLY INFORMALLY FORECASTS IMPORTS AT \$5.25 TO 5.4 BILLION, THE EMBASSY REGARDS THE FORMER FIGURE, WHICH REPRESENTS A 13 PERCENT INCREASE OVER 1974, AS MORE REALISTIC. (PRELIMINARY STATISTICS SHOW TOTAL IMPORTS FOR THE FIRST SIX MONTHS OF 1975 AT 7 PERCENT ABOVE THE FIGURE FOR JANUARY-JUNE 1974.) NATURE MAY BE GIVING A HELPING HAND IN THE AGRICULTURAL SECTOR, AS INCREASED

DOMESTIC PRODUCTION AND FALLING PRICES ON WORLD MARKETS  
REDUCE THE BILL FOR CERTAIN AGRICULTURAL COMMODITIES. FACTORS  
CONTRIBUTING TO THE 1975 INCREASE IN IMPORTS INCLUDE,  
IN ADDITION TO MILITARY PROCUREMENT: WORLDWIDE INFLATION,  
WHICH WILL PROBABLY MEAN A 10 PERCENT INCREASE IN COST FOR  
THE SAME VOLUME OF GOODS IMPORTED IN 1974; INCREASED DEMAND  
FOR CAPITAL GOODS AND RAW MATERIALS DUE TO AN ANTICIPATED  
UPSWING OF MODERATE PROPORTIONS IN THE ECONOMY; A PERSISTENT  
HIGH LEVEL OF DEMAND FOR CONSUMER GOODS; AND A POSSIBLE  
INCREASE IN PETROLEUM PRICES (GREECE IS CURRENTLY WHOLLY  
DEPENDENT ON FOREIGN SOURCES TO MEET ITS PETROLEUM REQUIREMENTS).

3. THE GOVERNMENT'S DEEP CONCERN OVER IMPORTS HAS RECENTLY  
LED IT TO SOMEWHAT MODERATE ITS MILDLY EXPANSIONARY FISCAL  
AND MONETARY POLICIES. CREDIT RESTRICTIONS WERE EXTENDED  
THROUGH THE END OF 1975, AND CENTRAL BANK RESERVE REQUIREMENTS  
WERE INCREASED. IN ADDITION, THE GOVERNMENT IS QUIETLY  
CONTEMPLATING SLOWING DISBURSEMENT OF BUDGETED PUBLIC  
INVESTMENT EXPENDITURES. FURTHER, A SPECIAL IMPORT  
CONTROL AGENCY HAS BEEN ESTABLISHED WITHIN THE COORDINATION  
MINISTRY TO SCRUTINIZE APPLICATIONS FOR IMPORT APPROVALS,  
PARTICULARLY TO ENSURE THAT PRICES ARE NOT ABOVE "INTERNATIONALLY  
ACCEPTED" LEVELS. (IN EFFECT, THIS IS AN ADMINISTRATIVE  
DEVICE TO DISCOURAGE IMPORTS --ALTHOUGH THE PROBLEM OF  
ARTIFICIAL INVOICE PRICES ON BOTH IMPORTS AND EXPORTS, AS A  
MEANS OF TRANSFERRING FUNDS ABROAD, IS A SOURCE OF CONCERN  
TO THE GOG.)

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4. EXPORTS - THE BANK OF GREECE ORIGINALLY ESTIMATED A 20 PERCENT INCREASE FOR EXPORTS OVER THE 1974 LEVEL, BUT HAS NOW HALVED THAT ESTIMATE TO 10 PERCENT -- WHICH WOULD RESULT IN EXPORTS OF \$2 BILLION. DURING JANUARY-JUNE 1975, EXPORTS INCREASED IN FACT 19 PERCENT OVER THE COMPARABLE PERIOD IN 1974. GREEK OFFICIALS ATTRIBUTE THIS INCREASE MOSTLY TO UNUSUALLY HIGH TOBACCO SALES AND LARGE ONE-TIME SHIPMENTS TO BALANCE CLEARING ACCOUNTS WITH EASTERN BLOC COUNTRIES DURING THE FIRST QUARTER. THE EMBASSY, HOWEVER, BELIEVES THAT, EVEN THOUGH THE RATE OF GROWTH OF EXPORTS TAILED OFF SOMEWHAT DURING THE SECOND QUARTER, THE NEW BANK OF GREECE ESTIMATE IS OVERLY PESSIMISTIC. JULY EXPORTS, ACCORDING TO PRELIMINARY DATA, SHOWED A SIZEABLE JUMP OVER 1974 LEVELS. ASSUMING NO DISRUPTION OF THE ECONOMY DUE TO A DETERIORATION IN RELATIONS WITH TURKEY, WE FORECAST EXPORTS AT \$2.15 BILLION, OR 20 PERCENT OVER 1974. CREDIT IS CURRENTLY AVAILABLE FOR FINANCING EXPORTS, ECONOMIC CONDITIONS ARE IMPROVING IN GREECE'S MAJOR TRADE PARTNERS AND, CONFIDENTIAL

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LOOKING MORE TOWARD THE FUTURE, THE GOVERNMENT HAS EMPHASIZED ITS INTENTION TO PROMOTE A RESTRUCTURING OF INDUSTRY AND AGRICULTURE TO BE MORE EXPORT-ORIENTED, AND TO DEVELOP MIDDLE EAST AND EASTERN EUROPEAN EXPORT MARKETS. IN ADDITION, THE EXTENSION OF GREECE'S EC ASSOCIATION TO THE UK, IRELAND AND DENMARK SHOULD HAVE A BENEFICIAL EFFECT. THE GOVERNMENT HAS ALSO ANNOUNCED THAT IT WILL CONTROL INVOICES TO ENSURE THAT "CORRECT" EXPORT PRICES ARE REFLECTED IN ORDER TO PREVENT HIDDEN CAPITAL TRANSFERS.

5. TRADE DEFICIT - TAKING THE ABOVE INTO ACCOUNT, EMBASSY FORECASTS THE 1975 TRADE DEFICIT AT \$3.1 BILLION, A 7 PERCENT INCREASE OVER 1974. FOR THE FIRST SIX MONTHS OF 1975, THE TRADE DEFICIT WAS VIRTUALLY THE SAME AS FOR JANUARY-JUNE 1974.

6. SHIPPING AND EMIGRANT REMITTANCES - IN LIGHT OF THE RECENT WORLDWIDE SLUMP IN SHIPPING AND THE FACT THAT THE \$60 MILLION ONE-TIME SHIPOWNERS' CONTRIBUTION OF 1974 WILL NOT BE REPEATED, THE EMBASSY FORECASTS A DROP OF 5 TO 7 PERCENT IN SHIPPING REMITTANCES, TO AROUND \$815-830 MILLION.

(FOR THE FIRST SIX MONTHS THE DECLINE WAS 3 PERCENT.) WITH ECONOMIC CONDITIONS IMPROVING IN THE UNITED STATES, THE FRG, AND OTHER COUNTRIES IN WHICH GREEK MIGRANTS ARE LOCATED PLUS THE RETURN OF POLITICAL STABILITY TO GREECE, WE PROJECT A 5 PERCENT INCREASE IN EMIGRANT AND WORKERS REMITTANCES , TO \$680 MILLION. (FOR JANUARY-JUNE THE INCREASE WAS 2 PERCENT OVER THE CORRESPONDING PERIOD OF 1974.)

7. TOURISM - GREECE HAD A POOR TOURIST YEAR IN 1974, PRIMARILY DUE TO THE CYPRUS CRISIS AND ITS AFTERMATH. 1975 IS LIKELY TO BE CONSIDERABLY BETTER, PERHAPS AS MUCH AS A 20-25 PERCENT INCREASE, TO \$525-540 MILLION. FOR JANUARY-JUNE 1975, TOURISM RECEIPTS ROSE ONLY 6 PERCENT, BUT PRELIMINARY JULY DATA AND INFORMATION ON HOTEL BOOKINGS FOR THE REST OF THE SUMMER SUGGEST A SUBSTANTIAL UPSURGE FOR THE SECOND HALF OF THE YEAR, ESPECIALLY IN COMPARISON WITH THE DISASTROUS CORRESPONDING PERIOD OF 1974. NEEDLESS TO SAY, A REPETITION OF LAST YEAR'S POLITICAL CRISIS OR ANY SERIOUS GREEK-TURKISH CONFRONTATION WOULD BRING THE TOURIST SEASON TO A QUICK CONCLUSION -- AND COULD AFFECT FUTURE YEARS' PROSPECTS

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AS WELL.

8. CURRENT ACCOUNT DEFICIT - THE RESULT OF THE VARIOUS ESTIMATES IN PARAGRAPHS 1 THROUGH 7, ABOVE, IS A CURRENT ACCOUNT DEFICIT OF ABOUT \$1.4 BILLION, REPRESENTING AN INCREASE OVER 1974 OF 13 PERCENT. FOR THE FIRST HALF YEAR, PRELIMINARY RESULTS INDICATE A CURRENT ACCOUNT DEFICIT OF \$872 MILLION, OR 4 PERCENT OVER THE CORRESPONDING FIGURE OF 1974.

9. THE CAPITAL ACCOUNT

(1) PRIVATE CAPITAL-BASED ON RECENT TRENDS IN DEPOSITS IN FOREIGN EXCHANGE AND SUPPLIERS CREDITS, EMBASSY FORECASTS NET PRIVATE CAPITAL INFLOW OF \$750 - 770 MILLION, OR ABOUT 10-14 PERCENT OVER 1974. SUCH AN INCREASE IS RELATED TO CONTINUED POLITICAL STABILITY AND TO FURTHER IMPROVEMENT IN ECONOMIC CONDITIONS IN GREECE AND THE WESTERN WORLD.

(B) OFFICIAL FINANCING GAP - AFTER ALLOWING FOR REPAYMENTS ON OFFICIAL DEBT, WE ARE LEFT WITH A GAP IN A RANGE OF \$700 MILLION TO \$750 MILLION, WHICH WOULD HAVE TO BE FINANCED BY NEW OFFICIAL BORROWING OR RESERVE DRAWDOWN. WITH RESERVES STANDING AT BARELY OVER TWO MONTHS' IMPORT BILL, THE GREEK GOVERNMENT WILL WISH TO AVOID ANY FURTHER REDUCTION IN RESERVES.

10. THE MOST IMPORTANT SOURCE OF FINANCING TO FILL THIS GAP IS EURODOLLAR BORROWING BY THE BANK OF GREECE. AS OF JANUARY 1, 1975, GREECE HAD UNDRAWN CREDITS FROM PRIVATE

BANK FINANCING ARRANGED IN 1974 AMOUNTING TO \$215 MILLION. OF THIS, \$115 MILLION HAS NOW BEEN DRAWN, AND THE BALANCE WILL ALMOST CERTAINLY BE DRAWN DURING 1975. THE GOVERNMENT IS EXPECTED SOON TO SIGN A \$175 - \$200 MILLION LOAN WITH A CREDIT-LYONNAIS-LED CONSORTIUM WHICH INCLUDES A NUMBER OF U.S. BANKS. HOW MUCH, IF ANY, OF THIS RATHER EXPENSIVE LOAN WOULD BE UTILIZED DURING THE REST OF THIS YEAR WILL DEPEND ON THE EXTENT TO WHICH OTHER SOURCES OF EXTERNAL ASSISTANCE ARE AVAILABLE.

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11. THE IMF IS A SIGNIFICANT BULWARK TO GREECE'S BALANCE OF PAYMENTS. DRAWINGS FROM THE IMF OIL FACILITY THIS YEAR WILL ALMOST CERTAINLY REACH \$200 MILLION, OF WHICH \$80 MILLION STEMS FROM THE 1974 APPROVAL AND \$120 MILLION FROM THE NEW 1975 OIL FACILITY; (AN ADDITIONAL \$60 MILLION FROM THE 1975 FACILITY IS EXPECTED TO BE DRAWN IN CY 1976.) FURTHER, THE GOG HAS ARRANGED TO DRAW ITS \$42 MILLION FIRST CREDIT TRANCHE (OUT OF A TOTAL \$167 MILLION AVAILABLE).

12. WITH RESPECT TO PROJECT ASSISTANCE FROM THE EUROPEAN

INVESTMENT BANK (EIB) AND THE WORLD BANK, GREECE WILL NOT BE ABLE TO DRAW DOWN ALL APPROVED LOANS IN 1975. GREECE IS ELIGIBLE FOR \$57 MILLION IN EIB FUNDS, BUT WILL PROBABLY BE ABLE TO ABSORB ONLY ABOUT \$20 MILLION THIS YEAR. LIKEWISE, PROBABLY NOT MORE THAN \$30 MILLION OF TOTAL IBRD FUNDS EARMARKED FOR GREECE CAN BE DISBURSED IN 1975. IN ANY CASE, PROJECT ASSISTANCE MAY NOT BE RELEVANT TO THE GAP, SINCE SUCH PROJECTS ALSO GENERATE ADDITIONAL IMPORTS.

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13. THE GOG IS EXPECTED TO FINANCE \$100-\$120 MILLION WORTH OF GRAIN IMPORTS THROUGH COMMERCIAL BANKS, AND ANOTHER \$50 - \$70 MILLION INFLOW IS ANTICIPATED FROM OTHER BORROWING (MOSTLY BY PUBLIC UTILITIES).

14. BILATERAL AID - THE FRG HAS AGREED TO PROVIDE DM 180 MILLION ON CONCESSIONAL TERMS DURING 1974-1976 IN THREE INSTALMENTS; DRAWINGS FOR 1975 WILL AMOUNT TO ABOUT \$50 MILLION. FRANCE WILL DISBURSE \$50 MILLION IN OFFICIAL LOANS. AS THE GREEK REQUEST FOR U.S. OFFICIAL ASSISTANCE IS STILL PENDING, ANY AVAILABILITY FOR CY 1975 IS DOUBTFUL.

15. CONCLUSION - TAKING INTO ACCOUNT THE VARIOUS POTENTIAL SOURCES OF EXTERNAL FINANCING DESCRIBED IN PARAS 10-14, ABOVE, IT APPEARS THAT GREECE'S REQUIREMENTS FOR OFFICIAL FINANCING TO CLOSE ITS 1975 BALANCE OF PAYMENTS GAP, WHILE LARGE, HAVE A GOOD CHANCE OF BEING MET. NEVERTHELESS, WITH A GAP OF SUCH PROPORTIONS, THE GOG IS UNDERSTANDABLY CONCERNED THAT ANY CHANGE IN THE ASSUMPTIONS UNDERLYING THESE ESTIMATES--E.G., ANY SERIOUS INCIDENT WITH TURKEY--COULD HAVE DISASTROUS CONSEQUENCES FOR THE BALANCE OF PAYMENTS. TOURISM, EMIGRANT REMITTANCES AND PRIVATE CAPITAL INFLOWS COULD DROP PRECIPITOUSLY FROM THE ESTIMATES IN THIS REPORT. EXPORTS MIGHT ALSO BE ADVERSELY AFFECTED. EVEN IF THE \$700 -750 MILLION GAP IS MET THIS YEAR WITHOUT RESERVE DRAWDOWN, GREECE CONFRONTS A MEDIUM-TERM BALANCE OF PAYMENTS PROBLEM OF SERIOUS PROPORTIONS. THE OIL PRICE INCREASE AND THE MILITARY MODERNIZATION PROGRAM WILL CONTINUE TO BURDEN HEAVILY GREECE'S TRADE DEFICIT DURING THE NEXT FEW YEARS. GREECE'S CURRENT INTERNATIONAL CREDIT STANDING FOR BANK LOANS REMAINS GOOD; BUT THE RELATIVELY HIGH COST OF THIS MONEY ADDS TO THE FUTURE DEBT SERVICE BURDEN, AND GREECE'S ABILITY TO RAISE SUBSTANTIAL AMOUNTS ON INTERNATIONAL CAPITAL MARKETS IS DEPENDENT ON ITS BEING ABLE TO SERVICE PROMPTLY EARLIER DEBTS.

16. GREEK OFFICIALS BELIEVE THAT WITHOUT CONTINUING BILATERAL AND MULTILATERAL ASSISTANCE ON CONCESSIONAL TERMS DURING THIS MEDIUM-TERM PERIOD, THE BALANCE OF PAYMENTS SITUATION IS LIABLE TO IMPOSE SERIOUS CONSTRAINTS ON THE GOVERNMENT'S ABILITY TO

PROMOTE ECONOMIC GROWTH AND, THEREFORE, COULD CONTRIBUTE TO  
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SOCIAL/POLITICAL PROBLEMS. IN THE LONGER RUN, GOG PLANS  
FOR STRUCTURAL REFORM, WITH AN EMPHASIS ON EXPORT-ORIENTED  
INVESTMENT AND THE DEVELOPMENT OF LOCAL ENERGY RESOURCES,  
PARTICULARLY LIGNITE AND OIL, OFFER SOME PROMISE OF  
IMPROVEMENT. BUT TO BENEFIT FROM THESE DEVELOPMENTS, GREECE  
WILL CONTINUE TO SEEK SHORT-TERM FOREIGN CONCESSIONAL  
ASSISTANCE.

17. DETAILED TABLES ON THE 1975 BALANCE OF PAYMENTS ESTIMATES,  
TOGETHER WITH THE FINAL JANUARY-JUNE RESULTS, WILL  
BE FORWARDED BY AIRGRAM.

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## Message Attributes

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